City of Santa Barbara
Airport Department

DATE: December 20, 2017
TO: Airport Commission
FROM: Hazel Johns, Airport Director
SUBJECT: FY2018 Airport Commercial/Industrial Lease Rates

RECOMMENDATION:

That Airport Commission approve the proposed Fiscal Year 2018 Commercial/Industrial Rental Rates for land and buildings at Santa Barbara Airport.

Proposed Rates for FY 2018

**Buildings:**
- Office $1.47 to $1.94/ square foot/ month
- Industrial / R & D/ Shop / Assembly $1.10 to $1.65/square foot / month
- Storage / Warehouse $ .81 to $1.15/ square foot / month
- Retail $1.40 to $2.25/square foot/ month

**Land:**
- Land $ .15 to $.35/ square foot / month

**Parking Spaces:**
- $25.00 per space/ month

**General Aviation:**
- Tie-down spaces Range from $122-$130 per month

DISCUSSION:

**Background**

One of Santa Barbara’s most significant strengths as an airport is its diverse portfolio of commercial and industrial properties. These properties provide the Airport with essential revenue as well as provide a community benefit to the businesses and employment they support in a wide-variety of sectors.

The Airport currently leases 303,176 square feet of building space and 4,874,752 square feet of land. The tenants and subtenants who occupy these premises are as diverse as the premises themselves. The activities and businesses represented among the Airport’s 138 tenants/subtenants and 161 agreements include:
• Commercial air service activities including airlines, rental cars, food & beverage service, news/gift retail, terminal advertising, short and long term parking, etc.
• General aviation activities including FBOs, T-hangars, tie-downs, flight schools, maintenance & avionics shops, freight carriers, charter air services, and aircraft washing services.
• Commercial/Industrial businesses including offices, research & development, light industrial and storage spaces.

Airport staff negotiated nearly 40 agreements with new and existing tenants in the past year. Since October 2016, the Airport maintained essentially full occupancy for land, which generally is in short supply in the area. During the same period, occupancy for buildings remained at more than 98%. The Airport’s grade B office spaces fill an important niche in the market for small local businesses. The last adjustment to the rental rates was July 1, 2016.

**Property Leasing of Existing Properties**

Most recently, the Airport staff has improved its “For Lease” property signage to the same standard as other commercial leasing companies in the area. Although occupancy of the Airport’s north side buildings is very high, available properties must be easily visible with signage on Hollister Avenue. The Airport will continue to advertise on craigslist which is also a common practice for commercial leasing companies.

Current building vacancies consist of:
• 800 square feet of office/storage at 6100 D Francis Botello Road
• two small offices at 629 Firestone Road, for a combined total of 384 square feet
• 560 square feet of office space at 53 Cass Place

Construction work is now complete in building 304 at 53 Gerald Cass Place which was severely flood damaged earlier this year. The tenant of this building (EasyLift) temporarily vacated the space during the damage remediation and has occupied 1,440 square feet of space with airside access at 1503 Cook Place. The Airport is currently negotiating for a new tenant in that location once EasyLift relocates back to their original space in December.

At the end of November a long term lease for building 114 and a portion of building 223, located at 100 and 94 Fredrick Lopez Road, expired. Building 114 consists of approximately 10,000 square feet of office space and is undergoing interior work, i.e. painting and installation of new flooring prior to new leasing. The portion of building 223 was previously sublet by the former Lessee to The Water Store and Athena Contractors. The Airport has negotiated direct leases with both tenants under favorable terms for two-year lease terms.

The Airport also has three aircraft tie-down vacancies with two in the process of being leased. There are no T-Hangar vacancies.
Market Analysis

Airport staff conducted a market analysis by examining commercial real estate websites, the Radius Group and Hayes Commercial Realty bulletins, monthly and quarterly reports, and the UCSB Economic Forecast.

Current lease trends in Goleta were evaluated using data from recent quarterly reports prepared by Radius Group for Q2 2017 and Q3 2017. The data shows that the Goleta office market has remained the most stable in terms of vacancy with average asking rates remaining consistent at $1.86 per square foot in Q2 2017 and Q3 2017. Industrial spaces, however, are in limited supply in both Goleta and Santa Barbara, with Goleta rents averaging $1.61 per square foot in Q3 2017 and vacancies at 2.6% compared to 5.5% in 2016. A new bay warehouse space planned for construction in 2018 in the Cabrillo Business Park will put downward pressure on lease rates in less desirable or older industrial spaces. However, current industrial rates are anticipated to be stable in the near term.

Retail rates in Goleta are significantly below those of Santa Barbara, even with Santa Barbara’s high vacancy rate. As of Q3 2017, per the Radius Group report, the average retail rate is $4.09 per square foot in Santa Barbara. In contrast, Goleta retail is very diverse ranging from lower rates in Old Town Goleta and higher rates in newer construction areas, such as Camino Real Marketplace and Fairview Shopping center.

Per listings on Loopnet, rates range between $2.10/sf for storefront space to $2.95/sf for a shopping center space.

<table>
<thead>
<tr>
<th>Q2 &amp; Q3 2017</th>
<th>Average – 2017</th>
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<tbody>
<tr>
<td>Radius/Hayes</td>
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</tr>
<tr>
<td>Office</td>
<td>$1.86</td>
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<tr>
<td>Industrial/R&amp;D</td>
<td>$1.61</td>
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<tr>
<td>Storage/Warehouse</td>
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</tr>
<tr>
<td>Land</td>
<td>No comps</td>
</tr>
<tr>
<td>Retail*</td>
<td>$2.25 - $2.95</td>
</tr>
<tr>
<td></td>
<td>$1.58</td>
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<tr>
<td></td>
<td>$1.29</td>
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<td>$0.90</td>
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<td>$0.20</td>
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<td>NA</td>
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*Retail range based on current listings from Radius and Hayes, and exclude spaces greater than 10,000 square feet.

Airport staff also sought competitive information from comparable airports for its tie-down spaces for single engine aircraft.

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<tbody>
<tr>
<td>Camarillo/Oxnard</td>
<td>$130 per month</td>
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<tr>
<td>Long Beach</td>
<td>$185 per month</td>
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<tr>
<td>Palm Springs</td>
<td>$150 per month</td>
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Tie-down rental rates offered by Atlantic Aviation and Signature Flight Support at SBA are within the range of the rates shown above for airport-managed tie-down spaces.
Rental Rate Analysis

The Airport has attracted a small number of retail tenants, and with the anticipated addition of retail as part of the future 6100 Hollister development, staff recommends the establishment of a retail rate. General aviation rates should also be adjusted to remain consistent with the market. Based upon Airport staff analysis of all the available information, and considering the relative condition and age of Airport buildings, staff recommends the following adjustments beginning January 1, 2018 through June 30, 2018:

**Proposed Rates for FY 2018**

**Buildings:**
- Office: $1.47 to $1.94/square foot/month
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**FY2018 Budget**

The Airport’s budget is established by first projecting revenue from the tenant leases, and user fees. Budget projections are also included in the Airport’s cash flow forecast. The projections do take into account possible vacant properties and potential development, so there is some flexibility in the estimates. Commercial/Industrial revenues for the FY2018 budget, including utilities and permits, were estimated at $4,425,100 based on projected FY2017 Commercial/Industrial revenue of $4,531,900, a 2% decrease based on a projected 6 month vacancy of Building 114.

**PREPARED BY:** Business Development/Properties